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July 6, 2004

Mr. Pat Miller  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

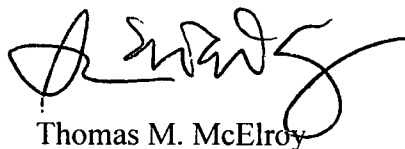
RE: Counce Natural Gas Company/Rate Increase  
Cause No. 04-00037

Dear Mr. Miller:

Please find the original and thirteen (13) copies of the following: Amended Petition for Rate Increase and Tariff Change, and Testimony of Michael D. Horton with Exhibits 1,2, and 3.

If you have any questions, please advise.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. McElroy', written over the printed name.

Thomas M. McElroy

Before the  
PUBLIC SERVICE COMMISSION  
Of the  
STATE OF TENNESSEE

In re:  
COUNCE NATURAL GAS  
(Cause No. 04-00037)

\*\*\*\*\*

Revised Testimony  
OF  
MICHAEL D. HORTON

\*\*\*\*\*

July 6, 2004

Q. Please state your name for the record, please.

A. Michael D. Horton

Q. By whom are you employed and what is your position?

A. Counce Natural Gas Corporation. I am the Majority Stockholder and President of Counce Natural Gas Corporation.

Q. How long have you been the Majority Stockholder of Counce Natural Gas?

A. I purchased the stock in Counce Natural Gas Corporation on October 1, 2000.

Q. Would you briefly describe your duties as President and Manger of Counce Natural Gas Corporation?

A. I direct the day to day operations of Counce Natural Gas Corporation, overseeing all administrative functions of the Corporation and make all decisions concerning the finances of the Corporation.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present facts in support of a rate increase for Counce Natural Gas Corporation.

Q. When was the company's last rate increase?

A. The last rate increase was The Order of The TRA dated March 2, 1999, approving the report of the Hearing Officer and the Settlement Agreement.

Q. Why is the Partnership filing this Amended Petition for a rate increase?

A. The Company has Amended its Petition for a rate increase in order to revise the increase in rates downward in order to provide the funds necessary to enable it to earn a fair and adequate rate of return, prevent impairment of its credit, meet the obligations of its customers, employees and creditors, and to preserve its property. Further, the corporation has revised its projections based on applicable Federal Energy Regulatory Commission Accounting Rules and Regulations and The Order of the TRA dated March 2, 1999.

The Amended Petition seeks a base rate increase from \$2.1304 per MCF to \$2.9500 per MCF for Residential, Commercial, and Industrial classes.

In addition, the Company seeks to increase its customer charge per month for Residential Customers from \$5.00 per month to \$10.00 per month; to increase the customer charge per month from \$10.00 to \$20.00 for Commercial Customers; and to increase the customer charge for Industrial Customers \$250.00 to \$300.00.

Q. Can you identify specific reasons why the company will be sustaining a projected operating loss for the year?

A. Yes. The base rate of \$2.1304 per MCF is insufficient to allow the Corporation to cover its operating cost and to make a reasonable profit.

Q. Are you aware of any complaints regarding the company's service?

A. No.

Q. What were the results of the Natural Gas Safety Inspection Report No. 04-079?

A. By letter dated April 22, 2004, the Company was notified that the April 6, 2004, inspection by the Tennessee Regulatory Authority Gas Pipeline Safety Division found no violations of the Code of Federal Regulation, Title 49, Transportation of Natural and Other Gas by Pipeline, minimum federal safety standards. This report reflects the result of the Company's ongoing effort to bring the gas system in compliance with all required safety standards.

Q. Is Counce Natural Gas Corporation seeking to amend its Tariff as reflected in Exhibit to the Amended Petition?

A. Yes. The amendment to the tariff is sought to increase customers deposits, costs to customers for installing gas service lines, the date for disconnecting a customer for non payment of a monthly bill, and raising the monthly customer charge for all classes.

Q. Are there other issues which need to be discussed at this time?

A. No.

Q. Does this conclude your testimony?

A. Yes.

# AFFIDAVIT

STATE OF MISSISSIPPI

COUNTY OF LEE

Michael D. Horton, being first duly sworn, deposed and says that he is the same Mike Horton whose prepared testimony accompanies this affidavit

Michael D. Horton, further states that, to the best of his knowledge and belief, his answers to the questions contained in such prepared testimony are true and accurate to the best of his knowledge and belief.

Dated this the 6th day of July, 2004.

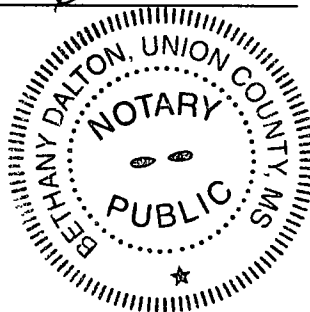
  
MICHAEL D. HORTON

Sworn to and subscribed before me this the 6th day of July, 2004.

  
NOTARY PUBLIC

My Commission Expires:

1-14-06



BEFORE THE TENNESSEE REGULATORY AUTHORITY  
IN RE: APPLICATION OF COUNCE NATURAL GAS CORPORATION  
TO INCREASE ITS RATES

CAUSE NO 04-00037

AMENDED PETITION

The Petitioner, Counce Natural Gas Corporation, would respectfully show to the Authority as follows:

1.

The Petitioner is a Tennessee Corporation with it's principle place of business located at Suite 200, 700 Colonial Road, Memphis, Tennessee 38117

2.

Petitioner is a public utility as designed in T.C.A. 65-4-101 and subject to the regulations of the Tennessee Regulatory Authority. That pursuant to previous Orders of the Tennessee Regulatory Authority, the following rate for use of natural gas was authorized \$2.1304 per MCF.

3.

Petitioner submits periodic financial statements to the Tennessee Regulatory Authority. Exhibit One (1) to Michael D. Horton's testimony reflects a projected loss for the time period ending May 31, 2005. Petitioner further submits that the system has operated at a loss since October 1, 2001

4.

Petitioner would show that in order to continue to operate and service it's customers, and to eventually provide a rate of return on the owner's investment, the existing rate should be increased as follows.

(A) Natural gas service rates for residential, commercial and industrial customers should be increased to \$2.95 per MCF.

(B) The monthly customer charge should be increased as follows: 1. Residential Customers - \$10.00 per month, 2. Commercial Customers - \$20.00 per month, and 3 Industrial Customers, \$300.00 per month

5.

In addition Petitioner seeks to change its tariff in accordance with the proposed tariff attached hereto as Exhibit 2. Attached as Exhibit 3 is a copy of the tariff now in effect.

WHEREFORE, Petitioner prays. that the Tennessee Regulatory Authority approve an increase in rates as aforesaid and to change the tariff as set forth above and that this matter be set for hearing at the earliest lawful date and prays for such other relief to which it may be entitled.

Respectfully submitted, this the 6th day of July, 2004.

COUNCE NATURAL GAS CORPORATION

  
By: MICHAEL D HORTON, PRESIDENT



### **ACKNOWLEDGMENT**

Michael D. Horton, being first duly sworn, deposed and says that he is the same Michael D. Horton who signed the above and foregoing Amended Petition, and further states that the facts of the Amended Petition are true and accurate to the best of his knowledge and belief.

Dated this the 6th day of July, 2004.

A handwritten signature in cursive script, appearing to read "Michael D. Horton", is written over a horizontal line.

MICHAEL D. HORTON

Thomas M. McElroy  
Attorney for Petitioner  
P. O. Box 1450  
Tupelo, MS 38801  
662-842-3723  
MS Bar No. 2543

Counce Natural Gas Company  
Dkt No 04-00037  
For the test year ended September 30, 2003

<u>Account</u>	<u>At 9/30/03</u>	<u>At 6/30/05</u>	(4)
	Per	Attrition	
	Company	Amounts	
Revenues			
Residential	12,731	12,731	
Commercial	14,039	14,039	
Industrial	20,378	20,378	
Min bills-Residential	6,755	6,755	
Min bills-Commercial	4,100	4,100	
Min bills-Industrial	6,000	6,000	
Late Fees	2,717	2,717	(3)
Gross Revenue (1)	66,719	66,719	
Distribution			
Repairs	4	4	
Supplies	1,052	1,078	
Administrative			
Accounting & Legal	5,761	5,905	
Auto Expense	3,761	3,855	
Donations	150	154	
Dues & Subscriptions	714	732	
Insurance	6,038	6,189	
License	534	547	
Miscellaneous	120	123	
Utilities	747	766	(2)
Office Supplies	480	492	
Postage	634	650	
Rent	2,535	2,598	
Telephone	1,753	1,797	
Salaries - officers	20,348	20,958	
Salaries - general	31,574	32,521	
Amortization Expense	3,000	3,000	(5)
Depreciation Expense	1,057	8,594	
Taxes other than income			
Taxes - other	2,447	2,508	
Taxes - payroll	4,387	4,497	
Total expenses	87,096	96,969	
Net income	<u>(20,377)</u>	<u>(30,249)</u>	

(1) Does not include gas cost

(2) Amount reduced by fifty percent to allocate portion of expense to Burnsville system

(3) Test year late fees adjusted to reflect anticipation of company's Industrial customers to pay on time

(4) Attrition year amounts indexed by inflation factors used by Company in Petition

(5) Amortized portion of projected rate case expense Two year amortization life expected

COUNCE NATURAL GAS COMPANY  
PROPOSED NEW  
GENERAL RULES AND REGULATIONS

1. EXPENDITURES FOR PLANT ADDITIONS

Prior to beginning the construction of any property or additions to plant, where the cost of same exceeds \$10,000, plans shall be submitted to the Tennessee Regulatory Authority for their approval.

2. REPORTS

Quarterly financial statements will be filed with the Tennessee Regulatory Authority.

3. RECORDS

All records required by the Tennessee Regulatory Authority will be kept at the company office located at Highway 72, Burnsville, Mississippi. Unless otherwise specified by the Authority, all records required by the Authority shall be preserved for the period of time specified in the current edition of the National Association of Regulatory Utility Commissioners' publication "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities."

4. PIPELINE SAFETY RULE

The Operating and Maintenance Procedure Manual that has been filed with the Tennessee Regulatory Authority will be kept current with applicable laws and used as a guide in complying with this rule.

5. STANDARD HEATING VALUE OF GAS

The gas supplied to customers shall have a minimum heating value equal to the heating value of the gas furnished by the company's supplier or suppliers. (This normally varies between 1000 and 1040 BTU per cubic foot.)

6. CUSTOMER SERVICE REQUESTS

Each customer desiring service of the types supplied by the company shall request the services either by writing, calling, or coming in person to the company office on Highway 72, Burnsville, Mississippi. This is required so that the proper forms and records can be processed.

7. DEPOSITS

Prior to providing gas service to a customer the following amounts of cash deposits, intended to guarantee payment of current bills for gas service, will be made with the company; rental houses, apartments, or mobile homes - \$150.00 houses owned by the customer - \$50.00, and small commercial - \$150.00, large commercial will be based upon monthly usage. The above deposits may be increased to an amount estimated to be equal to the two highest regular billing periods, where the management of the company has experienced collection problems or has valid reasons to expect collection problems with a customer.

8. EXTENSION POLICY

a. Service Lines - A service line will be installed at a cost of \$1.35 per foot plus \$40.00 for riser and tap.

b. Main Extensions - Gas mains will not be installed or extended without charge. A feasibility study that reflects the gas customer's gas consumption will determine the costs as well as economically support the extension. Gas mains may be extended for reasons other than the above at the direction of the President of the Company.

9. COMPANY OWNED EQUIPMENT ON CUSTOMER'S PREMISES

The company will normally furnish, own, and maintain the following equipment on customer's premises; a service line, a gas shut off valve or valves, a gas pressure regulator or regulators with proper relief devices and a gas meter. If service line is found to be leaking or damaged, the service line will be repaired or replaced at customer's expense.

10. MEASUREMENT OF GAS

The gas furnished to residential and small commercial customer will be measured at standard service pressure (atmospheric pressure = 4 ounces) and under the condition existing in the meter, however, a meter which corrects the temperature of the gas to a base F may be used at the company's option.

The gas furnished to large commercial and industrial customers will be measured in accordance with the applicable rate schedule or as specified in the gas contract between the customer and the company.

11. METER READING AND BILLING

- a. The monthly customer service charge for a residential customer is \$10.00 per month.
- b. The monthly customer service charge for a commercial customer is \$20.00 per month.
- c. The monthly customer service charge for an industrial customer is \$300.00 per month.

Meters will be read monthly on a scheduled cycle basis with a bill for the gas consumed during the billing period mailed to the customer by the fourth day following the date that the meter was read. The bill rendered to the customer will be based on the type of service furnished in accordance with approved rate schedules or existing contracts with the company.

12. DISCONTINUANCE OR SUSPENSION OF SERVICE FOR NONPAYMENT OF GAS BILLS

Residential and small commercial customers bills become due on the 5<sup>th</sup> day of each month and become delinquent on the 16<sup>th</sup> day of each month. When the bill becomes delinquent a 10 % charge shall be added and the customer notified that their gas service will be discontinued if the bill is not paid by the 25<sup>th</sup> of the month.

13. SERVICES PROVIDED TO CUSTOMER'S APPLIANCES

The company will provide the following service free of charge to its Residential and small commercial customers, if performed during normal working office hours: check for gas leaks on customer's piping and appliances. The company will charge for the above services if it is made other than during normal office hours or required to be repeated frequently for the same customer.

14. WASTAGE OF GAS

If gas wastage occurs, without the knowledge of the customer, the company will adjust the customers bill by half the difference between the cost of gas to the company and the effective rate at the time of wastage.

15 SITUATIONS NOT COVERED BY THESE GENERAL RULES AND REGULATIONS

When prompt action is required for a situation not covered by these General Rules and Regulation, the President of the Company or his designated representative is authorized to determine what procedure should be followed. After making a ruling of this type, it is to be brought to the attention of the President for his decision as to whether it should be added to the General Rules and Regulations.

COUNCE NATURAL GAS COMPANY  
EXISTING  
GENERAL RULES AND REGULATIONS

1. EXPENDITURES FOR PLANT ADDITIONS

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8. EXTENSION POLICY

a. Service Lines - A service line will be installed free of charge a distance of not more than 200 feet from an existing main to a permanent dwelling. The location of the service line riser will be determined by the company. For service lines more than 200 feet in length from an existing main, the company will determine if the customer's gas consumption will economically support the additional required footage or if a charge should be made for the additional labor and material.

b. Main Extensions - Gas mains will be installed or extended without charge a distance of not more than 100 feet per customer or after a feasibility study has been made which reflects that the gas customer's gas consumption would economically support the extension. Gas mains may be extended for reasons other than the above at the direction of the President of the Company.

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